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THE IRAN-CONTRA SCANDAL PROMISES TO
SPREAD, TOUCHING OTHER ADMINISTRATION
OFFICIALS, DAMAGING RONALD REAGAN
AND THREATENING HIS PRESIDENCY

WHAT DID THEY KNOW, AND WHEN?

■ The call to the White House was unexpected—and most congressional leaders reckoned that they were about to be notified of some high-level sackings related to the botched Iran arms sale. But then Ronald Reagan entered the room, and it quickly became clear that the dimensions of the crisis had changed dramatically. "I want to relate some incidents we will immediately tell the press about," the President said, speaking without notes. He then turned to Atty. Gen. Edwin Meese—who delivered news to the stunned audience that seemed certain to alter the tenor of the Reagan Presidency for the rest of its life.

Suddenly, the controversy over the secret arms shipments to Iran and the subsequent diversion of millions of dollars to the *contra* rebels in Nicaragua had mushroomed into a full-blown scandal—complete with startling White House staff departures and talk of shredded documents and tainted money from secret bank accounts. "It was serious before," said a senior White House official. "But now with the *contra* connection, the whole thing has metastasized." Investigators were being instructed to "follow the money," and members of both parties were calling for a special prosecutor to unravel the mess. Reagan himself appointed a three-member panel headed by former Senator John Tower to review the role of the National Security Council staff, and he ordered White House aides to cooperate with a Justice Department inquiry under Meese's guidance. But Congress was moving quickly on its own: The Senate Intelligence Committee announced a formal investigation to begin this week and asked the White House to secure all documents relative to the secret operation. Like familiar but unwanted guests, the haunting old questions from

the Watergate period had returned: What did the President's men know, and when did they know it?

Crucial differences

By most accounts, the Watergate comparison was plainly overdone. No one seriously suspects Reagan himself of masterminding the back-door flow of arms and money, for instance, and his seeming willingness to press an investigation hardly suggests a Nixonian cover-up.

Where Watergate arose out of stark political interest, the current crisis seems to have grown from misguided efforts to advance national goals. Perhaps most important, where Watergate reeked of rank criminal actions, it is still unclear that the secret arms deals and diversion of funds to the *contras* violated any laws (page 25).

That should soon become clearer. Justice Department investigators are pursuing leads indicating that NSC staffer Lt. Col. Oliver North shredded White House documents and looking into a *New York Times* report that former National Security Adviser John Poindexter may have destroyed other White House papers. It was North who directed the scheme that, for 18

months, sent U.S. arms to Iran and funneled \$10 million to \$30 million back through numbered Swiss accounts to the *contras* in Central America. Reagan fired North last week and accepted the resignation of his boss, Poindexter. (A replacement could be named this week.) If it turns out that North actually did destroy important documents in the 36 hours before White House security officers changed the combination locks to his office and safe, he could face an obstruction-of-justice charge, legal experts maintain.

However the spreading scandal and investigation finally sort out, there seems little doubt that the President has been badly damaged. Aides and outsiders alike fear the scandal may have compromised Reagan's ability to pursue even limited domestic and foreign-policy initiatives that might otherwise have been taken up with the new Democratic-controlled Congress. Now, instead of Reagan's setting the agenda, the coming weeks and months will be taken up with the inevitable hearings and investigations into the links between arms shipments and *contra* funding. The White House surely will continue its strenuous attempts at damage control, but there is growing speculation that the scandal eventually could touch other top officials. In that event,

the President's capacity to govern could come to a grinding halt.

Even if the damage from the scandal is contained, Reagan's forced preoccupation with the issue and growing uncertainty among U.S. allies, moderates in the Middle East and even the Soviets are certain to thwart Reagan's initiatives overseas, precluding progress on arms control, the war between Iran and Iraq and, especially, continued aid to the *contras*. In the backwash of the affair, the administration took pains to point out that control of foreign policy had been returned to the State Department and Secretary George Shultz, but even that seemed unlikely to turn things around. The President "does not play well going backward," says a former aide. Under the best of circumstances, the U.S. may be in for a frustrating period of drift and deadlock for the rest of the Reagan term. That would probably benefit no one.

"Presidency that worked"

By themselves, the secret Iran arms deals might have hobbled the President temporarily. But the disclosure last week that North funneled profits from the deals through numbered Swiss bank accounts to the *contras* thrusts at the very heart of the Reagan Presidency. "This puts at risk the major accomplishment of this administration, which was a real sense of competence," says Representative Dick Cheney (R-Wyo.), deputy chief of staff to President Ford. "For once, we had a Presidency that worked."

If that popular perception has been badly damaged, it may count as the greatest tragedy in the entire affair. For the first time in a generation, the Presidency under Reagan was viewed at home and abroad as strong and vital, and Reagan himself was seen as a kind of healing figure who restored luster and dignity to the office. It is a sad irony now that Reagan, like Jimmy Carter before him, found his biggest stumbling block in Iran. In wrapping two of his most controversial foreign-policy initiatives—Iran and Nicaragua—in an aura of scandal and potential illegality, the current crisis seems to have stripped Reagan of his near magical charm and credibility. An ABC News poll last week showed that a huge 80 percent believe Reagan knows more about the Iran-*contra* affair than he has admitted to date. His popularity rating also dipped an additional 4 points last week to 53 percent—way down from the stupendous 67 percent rating just two months ago.

Now, for the first time, the very delicate question of age also is being raised

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friend and former high-ranking White House aide, "is that Ronald Reagan is beginning to look like he's drifting along and letting old age overtake him." Reagan is 75, the oldest President ever. Whether his age has become a factor in daily decision making at the White House, the President's detached management style no longer seems appropriate given the damage to his reputation for leadership and competence.

For those around the President, the fallout has also been heavy. "People are hammering their desks down around here," says a top White House official, "and trying to climb under them." Chief of Staff Donald Regan, who once exulted when the press described him as "assistant President," seems to have adopted a classic "Who, me?" attitude when asked whether he had any knowledge of the goings-on. And things could get worse yet. Vice President George Bush, who has remained strangely silent in the whole affair, will surely suffer the heaviest political damage, especially if new disclosures link more administration officials to the secret shipments of arms

and money that North directed from the White House basement.

As for the losers, it's a pretty good bet they haven't all been counted yet. As Democrats geared up investigations into the affair this week, the Justice Department's separate criminal inquiry had already expanded well beyond North and the NSC staff. CIA agents and Director William Casey have also come under scrutiny, and the investigators want to know what role they might have played in facilitating the flow of arms and money between Iran and Central America. The investigators already have seized records from North and Poindexter. But that may be just the beginning of a bigger puzzle.

Meese, who is interviewing Reagan, Bush and cabinet officials as part of the extraordinary Justice Department inquiry, said North was the only person who had "precise knowledge" of the deals and Poindexter knew only "generally" about them. It's unclear how Meese could have made that determination so quickly since, as even he says, "all of the information is not yet in." For their part, some legal experts believe

Meese may already have compromised himself, and Democrats who don't buy the North-Poindexter scenario are calling for appointment of an independent counsel, or special prosecutor.

The full story probably will take months to come out. But even now it's clear that the decision-making loop almost certainly went beyond North, with some well-placed intelligence sources indicating that as many as "10 or 12" administration officials may have known about the secret operation. NSC sources say staffers like North must submit one-page reports at the

activities for superiors, and it's impossible he could have concealed the secret operation from everyone. Whether he did or not, it still seems unlikely that North could have singlehandedly directed the unwieldy operation that sent U.S. arms to Iran and money flowing back to Central America through discreet Swiss bankers. "Directly using taxpayer money to violate the law," fumes David Durenberger (R-Minn.), chairman of the Senate's Select Committee on Intelligence. "It is way be-

yond our most creative imaginations." Perhaps unsurprisingly, the strange affair that is now causing Ronald Reagan so much trouble began with a few unexceptionable goals.

As far back as 1983, after Iranian complicity in the bombing of the U.S. Embassy and the Marine barracks in Beirut, the Reagan administration had tried and failed to negotiate with Iranians to curb terrorism and secure the return of hostages. By 1985, with their fortunes waning in the terrible war with Iraq, the Iranians seemed ready to deal—at least according to the Israelis.

The Israelis had maintained discreet relations with some Iranians since the fall of the Shah in 1979, cementing closer ties with shipments of weapons, a common coin of friendship, or at least tolerance, in the Middle East. In late 1985, the weapons traffic between the two countries seems to have been picking up steadily—perhaps with tacit approval of the White House.

An example: In August, 1985, two Israeli arms dealers named Yaacov Nimrodi and Al Schwimmer made a shipment of arms to Iran with the ap-

proval of the Israeli government. The U.S. insists it didn't know about the shipment, which violated its own embargo of arms to Iran. But the Israelis have said they were acting with U.S. approval. Whatever transpired, less than a month after the shipment, American hostage Benjamin Weir was released by Iranian-backed terrorists in Beirut, and Reagan telephoned then Prime Minister Shimon Peres to thank him for his assistance. And coming right on the heels of Iran's intervention in June, 1985, to release hostages from a hijacked TWA jet, the release of Weir emboldened Reagan and his aides to attempt further contacts.

Approach to Iran

At a December meeting of Israeli arms dealers in London, David Kimche, then director of Israel's Foreign Ministry, told Robert McFarlane, who had just resigned as Reagan's national-security adviser, that moderates in Iran would be willing to talk with the U.S. but wanted arms before they would do so. However, North already had begun shipping arms to Iran the month before. Again, whether McFarlane or anyone in the White House

knew is the hottest question in Washington. But this, according to key intelligence sources, is what happened:

In November, 1985, North had asked CIA Director Casey to help arrange a delivery of oil-drilling parts to Iran, according to Senator Durenberger, but it turned out that the shipment included weapons. Casey, who was briefed frequently on the Iran and *contra* overtures, says he was aware only of "gossip" about the funneling of money. In any event, even before McFarlane showed up in London, a CIA-chartered company called Southern Air Transport had ferried Hawk antiaircraft and TOW anti-tank missiles from Israel to Iran.

Iran later returned the Hawk missiles because the munitions were obsolete, but once again, it's unclear who in the administration knew what was really going on or if a lieutenant colonel really was running the nation's foreign policy from the White House basement. Another example: In December, on the same day McFarlane was in London discussing arms shipments to Iran, Shultz and Defense Secretary Caspar Weinberger were meeting with Reagan to try to block the idea. Weinberger calling it "absurd." The three met again on January 7. Finally, 10 days later, Reagan signed the necessary order, called a "finding." North, it seemed, had won at last.

And the arms shipments soon picked up. Between February and June, 1986, Boeing 707s shuttled out of Kelly Air

Force Base in San Antonio, Tex., with 180 tons of military cargo bound for Tel Aviv and then possibly Iran. But that apparently wasn't enough. *U.S. News* has learned of a classified intelligence report showing that, since 1983, Iran has received more than \$1.5 billion in military equipment from Western countries—a vast amount that may already have tipped the balance in the seven-year Iran-Iraq War in favor of the Ayatollah Khomeini. Diplomatic sources also have told *U.S. News* that Saudi Arabia was encouraged by North or someone else in the U.S. to finance at least one purchase, apparently resisting at first but then giving in. The deal in question was brokered by Saudi arms merchant Adnan Khashoggi, the sources said. Details of the transaction are unclear, but the sources say that the Saudis were told ahead of time that some money would be siphoned off for the *contras*. If so, it may have been the first time the bizarre link was made between the bearded mullahs in Iran and Ronald Reagan's cherished "freedom fighters."

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Even now, Meese says, it's unknown to investigators when the decision was made to establish the link, when the secret Swiss accounts were opened or even how many secret shipments of arms and cash payments to the *contras* were made. "I can't give you the precise dates," he said. CIA Director Casey was equally "fuzzy" on the question of details, congressional sources say. In a closed-door briefing to the House Select Committee on Intelligence, Casey said the CIA had set up a "sanitized Swiss bank account to receive money from the Iranian sale." But Casey said he didn't know who decided to set it up, who handled the transactions and whether any commissions were paid to middlemen.

Those questions loom large in the Justice Department investigation, and analysts from the National Security Agency have already begun reviewing intercepted radio traffic from Iran in an attempt to learn dates, times and amounts of the arms shipments and payment of money. Meese has stated that some "intercepts" helped uncover the secret North operation. And if

North really did destroy White House documents crucial to the investigation, it's likely the NSA tapes will provide the links to any other administration officials who may have been involved in the operation. Casey has said privately that "no one will go to jail" because of the scandal. But he has been one of the administration's most ardent *contra* supporters, and since it was the CIA's bank account through which the secret money was funneled, the Justice Department inquiry is focusing closely on

the role of both the CIA and Casey.

Despite the understandable confusion, some details are known about the operation. Between \$10 million and \$30 million is believed to have gone to the *contras*, although some sources have said the amount may be as high as \$100 million. Congressional intelligence sources, while they still have only a hazy view of most of the secret dealings, have come up with a rough breakdown of some of the money, and it provides a fascinating glimpse of the quicksilver world of the international arms bazaar. According to the sources, one transaction worked like this: The NSC ordered

Pentagon officials to transfer 500 TOW antitank missiles to the CIA, possibly from U.S. Army arsenals in Anniston, Ala., and Texarkana, Tex.

The weapons, valued at between \$3 million and \$4 million, were flown by the CIA on leased aircraft to Israel, where an Israeli arms broker and another man acting as banker reimbursed the CIA. The arms broker took control of the missiles and the CIA placed the money in an already established Swiss account to reimburse the Pentagon.

while the broker was making delivery in Iran. Under pressure to obtain arms in the draining war with Iraq, the Iranians had already agreed to pay \$19 million for the weapons. That money, too, went into numbered Swiss accounts and was disbursed as follows: \$3 million to \$4 million, plus a fee, to the financier who paid the CIA; \$3 million to the arms broker for arranging the deal, and—the clincher—\$12 million to a Swiss account controlled by the *contras*.

In hindsight, it's not all as strange as it may seem. NSC sources say North was responsible for "two accounts, Nicaragua and counterterrorism." Even his detractors say Ollie North was an energetic and enterprising operative, and like the President he served, he believed passionately in the *contra* cause. When the \$19 million Iranian windfall came his way, the sources said, North may have thought, "What better way to dispose of it" than on the Nicaraguan rebels? After all, Congress had blocked all shipments of weapons to the *contras*.

and in April, 1984, the CIA was down to its last \$1 million of congressionally authorized funds for the rebels; the *contras* were desperate. Almost from the very day the congressional ban on so-called lethal aid to the *contras* took effect, the Reagan administration had used a wide range of "cutouts," or back channels, to put guns in *contra* hands. With money provided by wealthy Americans who believed in the cause and other financial support from U.S. allies like Israel, Saudi Arabia and Taiwan, North and retired Air Force Gen. Richard Secord directed the cutouts, commercial cargo carriers and private

pirots. Unfortunately for North, Secord and maybe others, some of the cutouts (page 22) messed up. And now, more of the secret deals are starting to come to light.

After the plane carrying American Eugene Hasenfus was shot down October 6 in Nicaragua, Sandinista investigators seized telephone records regarding the safe house where Hasenfus and others involved in the secret *contra*-resupply effort had been living. Hasenfus, who has been sentenced to 30 years in prison in Nicaragua for crimes against the government, has said he was working for the CIA. Whether that's true, there's no doubt he was working for some well-placed officials in the United States. Not only did the Sandinistas find Secord's home and office-telephone numbers at the safe house, they also found North's old office-telephone number at the White House. Most damning of all, particularly in light of the revelations about secret Swiss banks, was a Swiss business card with a scribbled bank-account number on it. It's not known if it's the same bank account as the one controlled by the CIA, but the coincidence is awfully intriguing to those in Congress. "I asked Casey whether he knew about it, and he said no," Durenberger said of the secret *contra* money. "Maybe I was talking into his bad ear."

Was it legal?

Despite all the fascination with the cloak-and-dagger aspect of the secret deals between Iran and the Nicaraguan rebels, it has profound legal ramifications. There is a long string of laws that may have been broken by government officials directing the operation. U.S. export laws are the most obvious, but there are others that bar arms shipments to sponsors of terrorism, such as Iran. Despite the Reagan administration's contention that it knows of no instance since U.S. overtures began where Iran has been involved in terrorism, State Department sources have told *U.S. News* that a still classified intelligence report cites definitive evidence of Iran's role in recent terrorist acts. Iran remains on the State Department's list of terrorist regimes.

More important for the administration is the potential that the North operation violated the Boland Amendment, which in 1984 prohibited the U.S. from taking "direct or indirect" action to destabilize the Sandinista regime. Congress is sure to address the question, perhaps even this week. For North and whoever else turns out to be implicated in the scandal, the most troublesome laws are likely to be the old tried-and-true criminal statutes ap-

plied in the nation's courtrooms every day. Legal experts say there could be violations of fraud, conspiracy and currency laws, and that's just for starters. Of course, if it turns out North did shred documents sought by Justice Department lawyers, he may also be liable on a charge of obstruction of justice.

Charges of cover-up and tainted money still have a lively resonance in the halls of Congress, and the magnified perception of dirty deeds and disarray may impel Democrats to action. "Do we have to read every statute with Talmudic exactitude?" asks an angry House Democratic leader. "What does all this say about the reliability of this administration to carry out our laws?" Given the level of outrage over the North affair, it is almost certain that some kind of legislation will be proposed either forbidding the NSC from any operative role or requiring some congressional oversight.

But more important than specific laws and responses is the political fallout from the scandal. It is hardly an exaggeration to say it has, at least for now, changed the landscape. Bush plainly has the most to lose, and any direct link to the scandal would probably finish him as a viable GOP candidate for 1988. It may be that no Republican will be helped by the scandal, as some say. But if any are, they'll probably be Senate Majority Leader Bob Dole and his predecessor, former Senator Howard Baker. The Democrats, meanwhile, sense that their chances of claiming the White House in '88 have

received a boost in the past week, but it's too early to tell for sure who benefits most. If the "age question" gets more currency in the next two years, and Reagan fails to pull out of the tail-spin, a younger candidate, such as Gary Hart of Colorado, or a competent detail man, such as Mario Cuomo of New York, might seem especially attractive.

Overseas, the impact may be difficult to fathom, but the immediate omens aren't good. America's allies sometimes wonder about all the fuss that attends such U.S. scandals—and the current affair may be no different. But as the potential scope of the crisis was beginning to sink in, Western European officials were starting to worry. "We are in a decisive situation in East-West relations," says Horst Teltschik, adviser to West German Chancellor Helmut Kohl. "There is a good chance to get agreements with Gorbachev, and a weak President is not as able to get agreements as a strong one."

Though no official sign has come yet from the Kremlin, it may not be long before the Soviets decide to write off the administration as too weak to sell an arms agreement of any kind at home. Meanwhile, if the U.S. has effectively opened the gates for huge shipments of arms to Iran, relations can only deteriorate with moderate states in the Middle East that fear the spread of Iranian-inspired Islamic fundamentalism. And if Reagan can't mend relations with Congress, it's unlikely he'll find a way to continue support for insurgencies in such places as Angola and Afghanistan. As for Nicaragua, the U.S. is scheduled to deliver the remaining \$40 million of the \$100 mil-

lion authorized for the *contras* by Congress after Reagan's arm-twisting earlier this year, and the White House had planned to ask for an additional \$200 million to \$300 million next year. Says Representative Dave McCurdy (D-Okla.), who played a key role in the last debate over aid to the rebels, "The *contras* are on their own now."

And so, as it turns out, may be Ronald Reagan. If the President is to rally, many friends and foes insist, he may have to abandon his detached management style and get more directly involved—perhaps calling for a special prosecutor himself, almost certainly banging heads and even firing other members of his White House staff. It was Reagan whose easy style and willingness to delegate did so much to rehabilitate the Presidency after the seeming weakness of Jimmy Carter and the dark days of Watergate. It would be the ultimate irony now if those same qualities result in events that cripple his administration in its last two years. ■

by Brian Duffy with Steven Emerson,
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